

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 L-03 H-01 PRS-01

PA-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /104 W

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P 050609Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3335

INFO AMEMBASSY JAKARTA PRIORITY

AMCONSUL MEDAN

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USADB

FOR NAC AGENCIES

E. O. 11652: NA

TAGS: EAID, EFIN, ID

SUBJECT: PROPOSED ADB LOAN FOR POWER DISTRIBUTION PROJECT (INDONE-
SIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$45.0 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF INDONESIA TO
FINANCE FOREX COST OF EXPANSION AND REHABILITATION OF POWER
DISTRIBUTION SYSTEMS IN MEDAN AREA (NORTH SUMATRA) AND IN
CIREBON AREA (WEST JAVA). USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R73-77 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES JULY 27. BOARD CONSIDERATION
SCHEDULED AUGUST 16.

2. ADB MANAGEMENT PROPOSING \$45.0 MILLION LOAN FROM ORDINARY
CAPITAL RESOURCES TO GOVT OF INDONESIA FOR EXPANSION AND
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REHABILITATION OF POWER DISTRIBUTION NETWORKS IN MEDAN AREA
OF NORTH SUMATRA AND CIREBON AREA OF WEST JAVA. PROCEEDS
WILL FINANCE FOREX COST OF: (A) EXAPNSION AND REHABILITA-
TION OF 20KV PRIMARY NETWORK AND SECONDARY DISTRIBUTION
NETWORK INCLUDING SUBSTATIONS; (B) ADDITIONAL SERVICE
CONNECTIONS; (C) PROVISION OF TOOLS AND EQUIPMENT FOR
OPERATION AND MAINTENANCE; AND (D) ENGINEERING SERVICES

FOR PROJECT IMPLEMENTATION. PROPOSED TERMS ARE 20 YEAR AMORTIZATION INCLUDING 4 YEAR GRACE PERIOD, 8.3 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER AND PERUSAHAAN UMUM LISTRIK NEGARA (PLN) THE EXECUTING AGENCY.

3. INDONESIA'S POWER SECTOR IS STILL IN EARLY STATE OF DEVELOPMENT. OF PLN'S TOTAL INSTALLED GENERATING CAPACITY TALLING 1220 MW AT END-JANUARY 1977, 26 PERCENT WAS HYDRO AND 74 PERCENT THERMAL. WHILE PLN HAS DEVELOPED TRANSMISSION SYSTEMS IN JAVA, POWER SUPPLY SYSTEMS IN OTHER ISLANDS ARE OPERATED ON AN ISOLATED BASIS. IN VIEW INADEQUATE ELECTRICITY SUPPLY BY PLN, THERE IS WIDESPREAD RELIANCE ON PRIVATELY-OWNED UNECONOMICALLY ISOLATED GENERATING UNITS. CURRENTLY GENERATION PLANTS WITH TOTAL CAPACITY OF 1,587 MW ARE UNDER CONSTRUCTION, AND CORRESPONDING EXPANSION AND REHABILITATION OF TRANSMISSION AND DISTRIBUTION SYSTEMS ARE URGENTLY NEEDED. ANNUAL GROWTH RATE OF ENERGY SALES HAS BEEN 11.3 PERCENT OVER PAST FIVE YEARS AND RATE OF 18.6 PERCENT IS PROJECTED FOR COMING EIGHT YEARS. CONCERTED PROGRAM OF GROWTH FOR POWER SYSTEM COUPLED WITH PROGRAM OF MANAGEMENT REFORMS AND FINANCIAL RECOVERY IS UNDERWAY, AND BANK AND IBRD HAVE BEEN REVIEWING ITS PROGRESS.

4. POWER SECTOR DEVELOPMENT IS LARGELY SUPPORTED BY LIMITED OFFICIAL USE

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FOREIGN FINANCING, WITH TOTAL COMMITMENTS OF \$1,125 MILLION AS OF DECEMBER 1976. THIS INCLUDES \$768 MILLION FROM IGGI DONORS, OF WHICH WORLD BANK GROUP, JAPAN AND UNITED STATES ARE LARGEST CONTRIBUTORS. ADB LENDING OF \$89.6 MILLION TO POWER SECTOR REPRESENTS ABOUT 12 PERCENT OF TOTAL IGGI COMMITMENTS. (ALL ADB-FINANCED GENERATION PROJECTS HAVE INCLUDED ADEQUATE TRANSMISSION FACILITIES FOR POWER UTILIZATION.)

5. MEDAN AREA INCLUDES INDONESIA'S THIRD MOST IMPORTANT PORT OF BELAWAN; IS THIRD LARGEST URBAN CENTER IN COUNTRY NEXT TO JAKARTA AND SURABAYA; AND IS CENTER OF ECONOMIC ACTIVITIES IN NORTH SUMATRA. INADEQUATE SUPPLY OF ELECTRIC POWER IS CONSIDERED AS A MAJOR CONSTRAINT TO ECONOMIC/SOCIAL DEVELOPMENT OF AREA. (ONLY 16 PERCENT OF MEDAN'S 700,000 POPULATION IS NOW SUPPLIED WITH ELECTRICITY.) EXISTING SUPPLY OF ELECTRIC POWER IS INADEQUATE BECAUSE OF DISTRIBUTION CONSTRAINTS AND IS ALSO UNRELIABLE. PROPOSED PROJECT WOULD COMPLEMENT DISTRIBUTION FACILITIES CURRENTLY BEING EXPANDED WITH FINANCING FROM USAID, EXPORT CREDIT AND PLN'S OWN RESOURCES, AND WOULD HELP SATISFY POWER DEMAND OF AREA

THROUGH UTILIZATION OF INCREASED GENERATING CAPACITY.

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INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /104 W

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P 050609Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3336

INFO AMEMBASSY JAKARTA PRIORITY

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FOR NAC AGENCIES

6. CIREBON AREA COMPRISES EASTERN THIRD OF WEST JAVA. IT IS A DENSELY POPULATED CENTER WITH AGRICULTURE, FISHERIES, INDUSTRY AND MINING PROVIDING ITS ECONOMIC BASE. POWER SUPPLY SYSTEM IN THE AREA IS STILL AT EARLY STAGE OF DEVELOPMENT, BUT HIGH GROWTH RATE IS FORECAST. PROJECT IS AN INTEGRAL PART OF COMPREHENSIVE POWER DEVELOPMENT PROGRAM IN JAVA AND WOULD COMPLEMENT ON-GOING USAID FINANCING FOR CONSTRUCTION OF TRANSMISSION LINES LINKING WEST AND CENTRAL JAVA.

7. WHILE TWO AREAS ARE SEPARATED GEOGRAPHICALLY, TWO PROJECT COMPONENTS WILL HAVE SIMILAR TECHNICAL CONTENT, SAME EXECUTING AGENCY, AND WILL YIELD SIMILAR BENEFITS. COMBINED PROJECT HAS BEEN PROPOSED BY GOVT DUE TO URGENCY TO PROMOTE DEVELOPMENTAL ACTIVITIES IN NEEDY AREAS IN JAVA AS WELL AS OUTSIDE JAVA SIMULTANEOUSLY. IT COMPLEMENTS PLN EXPANSION PROGRAM FOR GENERATION AND TRANSMISSION LINES LINKING WEST AND CENTRAL JAVA.

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MISSION SYSTEMS IN NORTH SUMATRA AND JAVA AND WILL ENABLE BRIDGING GAP BETWEEN INCREASED GENERATING CAPABILITY AND WAITING LIST OF CONSUMERS AND PROSPECTIVE DEMANDS FOR ELECTRIC POWER.

8. TOTAL COST OF PROPOSED PROJECT IS ESTIMATED AT \$68.2 MILLION, OF WHICH \$45 MILLION FOREX COMPONENT TO BE FINANCED BY BANK REPRESENTS 66 PERCENT OF TOTAL COST. PROCEEDS WOULD BE RELENT TO PLN UNDER FINANCING AGREEMENT ACCEPTABLE TO BANK AND ON TERMS SUBSTANTIALLY SIMILAR TO THOSE OF BANK LOAN. LOCAL CURRENCY COMPONENT OF \$23.2 MILLION WILL BE PROVIDED BY GOVT TO PLN ALSO ON TERMS AND CONDITIONS SATISFACTORY TO BANK.

9. PROCUREMENT OF GOODS AND SERVICES UNDER LOAN FINANCING WILL BE CARRIED OUT BY PLN IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. CONTRACTS ESTIMATED TO COST \$100,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS ON BASIS OF REASONABLE COMPETITION FROM CONTRACTORS/SUPPLIES FROM MORE THAN ONE MEMBER COUNTRY. CONSULTANTS WILL BE RECRUITED BY PLN FOR PREPARATION OF DESIGNS AND TENDER DOCUMENTS AND TO ASSIST IN PROCUREMENT, SERVICING OF CONTRACTS, CONSTRUCTION SUPERVISION, INSTALLATION AND COMMISSIONING OF WORKS, PREPARATION OF COMPLETION REPORT AND TRAINING OF PLN STAFF. FOR MEDAN AREA, CONSULTANTS WOULD ALSO BE REQUIRED TO ASSIST IN SYSTEM PLANNING TO COORDINATE THESE WORKS. IN VIEW GEOGRAPHICAL SEPARATION OF MEDAN AND CIREBON PROJECT AREAS, SEPARATE PROJECT MANAGEMENT AND CONSULTANT TEAMS WOULD BE NECESSARY. CONSULTANTS WILL BE RECRUITED BY PLN IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS.

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10. PLN HAS BEEN EXECUTING AGENCY FOR ALL NINE PREVIOUS BANK LOANS TO INDONESIA IN POWER SECTOR. IT IS GOVT-OWNED ELECTRIC UTILITY CREATED IN 1961 AND RESTRUCTURED INTO PRESENT CORPORATE FORM IN 1972. TO ASSIST PLN IN ITS MANAGEMENT REFORM, SERVICES OF CONSULTANTS WERE PROVIDED UNDER WORLD BANK GROUP FINANCING FROM 1970 TO 1976. ASSISTANCE INCLUDED ESTABLISHMENT OF NEW ACCOUNTING SYSTEM, REVISION OF TARIFF STRUCTURE, REVALUATION OF ASSETS AND INITIATION OF COMPREHENSIVE TRAINING PROGRAM, WHICH HAS LED TO CONSIDERABLE IMPROVEMENT IN PLN'S FINANCIAL CONDITION TOWARD GOAL OF PLN BREAKING EVEN BY 1978/79.

11. IN VIEW HIGH COST OF POWER GENERATION AND SMALL SIZE

OF OPERATIONS, MEDAN PROJECT AREA HAS BEEN INCURRING DEFICITS OF ABOUT 1.2 BILLION RUPEES PER ANNUM. DEFICITS ARE EXPECTED TO CONTINUE UNTIL SYSTEM EXPANDS AND MORE EFFICIENT POWER GENERATION SOURCES BECOME AVAILABLE. BY PROVIDING MUCH NEEDED DISTRIBUTION FACILITIES, PROPOSED PROJECT WILL HELP IMPROVE SITUATION. CIREBON IS AN IMPORTANT AND PROFITABLE OPERATING AREA OF PLN AND ACCOUNTS FOR 18 PERCENT OF PLN SYSTEM SALES. THIS AREA HAS BEEN PRODUCING ANNUAL NET PROFIT OF ABOUT 1.2 BILLION RUPEES. AS PLN'S EXPANSION PROGRAM PROCEEDS AND OPERATING COSTS INCREASE, PLN'S TARIFFS ARE FORECAST TO BE RAISED TO ABOUT TWICE CURRENT LEVELS BY 1983/84, WHICH WOULD ENSURE ADEQUATE DEBT SERVICING AND SELF FINANCING CAPACITY. EXPANDING SALES VOLUME, REALISTIC RATE POLICY AND MORE FAVORABLE POWER GENERATION MIX IN MEDAN AREA ARE EXPECTED TO RESULT IN ELIMINATION OF OPERATING LOSSES IN MEDAN AREA AND FURTHER IMPROVEMENTS IN PROFITABILITY OF OPERATIONS IN CIREBON AREA. UNDER ASSUMED RATE LEVELS AND OPERATING CONDITIONS, MEDAN AREA IS EXPECTED TO BREAK EVEN AROUND 1979/80.

12. PROPOSED PROJECT IS CONSIDERED TO BE TECHNICALLY LIMITED OFFICIAL USE

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FEASIBLE AND FINANCIALLY AND ECONOMICALLY VIABLE. FINANCIAL AND ECONOMIC RATES OR RETURN ARE ESTIMATED AT 22 PERCENT AND 24 PERCENT, RESPECTIVELY. PROJECT WILL IMPROVE AND EXTEND PLN OPERATIONS IN THESE AREAS AND PROVIDE BENEFITS OF ELECTRIC POWER TO WAITING INDUSTRIAL LOADS AND LARGER SEGMENT OF POPULATION. ADB STAFF INDICATES IT WILL BE BASIS FOR GENERATION OF ADDITIONAL EMPLOYMENT OPPORTUNITIES AND INCOMES FOR LOW-INCOME FAMILIES. USADB SUPPORT PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

13. REQUEST JAKARTA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972. EDMOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MANAGEMENT, POLICIES, DEVELOPMENT LOANS, ELECTRIC POWER PLANTS, PROGRAMS (PROJECTS)
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MANILA12138
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770280-1155
Format: TEL
From: MANILA ADB
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770893/aaaadauq.tel
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Litigation History:
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Message ID: 4ef86f61-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1699712
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR POWER DISTRIBUTION PROJECT (INDONE- SIA) SUMMARY: ADB MANAGEMENT PROPOSES \$45.0 MILLION EQU
TAGS: EAID, EFIN, ID, ADB
To: STATE
Type: TE
vdkgvkey: odbcr://SAS/SAS.dbo.SAS_Docs/4ef86f61-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009